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UNCLAS SECTION 01 OF 03 MAPUTO 000505

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SENSITIVE  
E.O. 12958: N/A  
TAGS: [ECON](#) [EAD](#) [EINV](#) [ETRD](#) [MZ](#)  
SUBJECT: MARCH MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

REF: MAPUTO 00455

Sensitive But Unclassified - Protect Accordingly

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FOREIGN INVESTMENT  
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[11.](#) (U) Mineral Resources Survey: The GRM signed an agreement with a South African firm, Fugro Airborne Surveys, to undertake aerial surveys in the northern and central provinces of Zambezia, Tete, Niassa, and Cabo Delgado, as reported by Noticias, the daily newspaper. The objective of the surveys is to collect information on the country's geological potential. Fugro will overfly the area using low-level remote sensing technology to detect geological pulses. Similar surveys have already been completed in Mozambique's southern provinces. Total investment in the project is around \$33 million, co-financed by the World Bank, the African Development Bank, the Nordic Development Fund, the South African Government, and the GRM. The new survey should be completed by March 2005 and final results of the country's geological mapping are expected by late 2006. Mining of precious stones is already underway in Niassa where Tanzanians are involved in mine exploration.

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MACROECONOMICS  
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[12.](#) (U) World Bank/IMF Joint Staff Assessment: A team from the World Bank and the IMF simultaneously conducted the annual Joint Staff Assessment (JSA) of Mozambique's progress in implementing the GRM's Action Plan for the Reduction of Absolute Poverty (PARPA). The JSA concluded that performance is "satisfactory". The IMF and the GRM negotiated terms for a new Poverty Reduction and Growth Facility [PRGF] arrangement and general agreement was reached; yet some details remain to be worked out. The new PRGF will support Mozambique's quest for poverty reduction, economic growth and stability. The PRGF is designed to maintain monetary and fiscal discipline while allowing Mozambique to continue its rapid GDP growth path with a comfortable external sector situation (REFTEL).

[13.](#) (U) Poverty Review: Recently reported results from the 2002/3 Household Survey, completed by the National Statistics Institute (INE), indicate that the poverty incidence in Mozambique has dropped to 54.1% in 2003, down from 70% in 1997. These numbers demonstrate that Mozambique is surpassing its poverty reduction targets as benchmarked by the GRM's Action Plan for the Reduction of Absolute Poverty (PARPA), which estimated poverty to drop to 60% by [12005](#). Revealing the results in front of Parliament, Prime Minister and Minister of Planning and Finance, Luisa Diogo, said these numbers and recent demography and health surveys also undertaken by INE indicate that Mozambique is "on the right path". According to Diogo, the "fundamental instrument" for poverty reduction is education and since 1999, expansion in primary and secondary education has vastly surpassed PARPA targets. Based on survey results, illiteracy has fallen from 60.5% in 1997 to 53.6% in 2003. The Minister presented a further challenge before Parliament, saying "We hope to cut the illiteracy rate to 50% this year (2004)". In health care statistics, the building of new rural hospitals and health units contributed to a rise in the number of people who could reach a health care center in less than an hour, from 40% in 1997 to 54% in [12003](#). The expanded vaccination program for childbearing women and children and an insecticide approach to preventing malaria has contributed to significant health gains. Additionally, the GRM has been active in the struggle against HIV/AIDS as 43 VCT centers were opened in 2003 and more than 200,000 patients used counseling and testing services.

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PORTS, ROADS, AND RAILWAYS  
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[14.](#) (SBU) Sena Line: The US-Mozambique Chamber of Commerce hosted a lunch with guest speaker Minister of Transportation Tomas Salomao this month. Salomao's speech to the business audience focused on reconstruction of the Sena Railway Line, a top GRM initiative and major infrastructure project,

valued at \$100 million. The Minister emphasized that rehabilitation of the line is important for development of the Zambeze River Valley and valuable to resource exploration and exportation opportunities in the area, namely of coal and sugar. Salomao admitted that the project would take time once the tender is awarded, estimating three and a half years for full completion. The GRM received three bids on line reconstruction in January 2004. The candidates have been scaled down to two, a Chinese and an Indian firm. The GRM's plan is to award the project and appeal to the World Bank for project financing. There continues to be US interest in exploring the possibility of barging down the Zambeze River, achieving coal exportation differently. This interest is meeting heavy GRM resistance, as the Sena line is a highly political issue that will go forward regardless of its economic viability, unless, of course, the World Bank refuses financing.

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TOURISM  
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15. (U) New Tourism Law: The Mozambican Parliament passed the first reading of a bill to regulate the tourism industry. Tourism Minister and former businessman, Fernando Sumbana, described tourism as a sector "responsible for rapid economic and social development" and a "fundamental instrument in the struggle for poverty reduction". A visibly growing industry in Mozambique, tourism is becoming more and more important to the national economy by attracting foreign investment, creating employment, and developing local infrastructure. The current bill intends to ensure that Mozambique's tourism potential is used in a rational and sustainable manner. It requires that tourist operators fix prices in the local currency (most prices are currently quoted in US dollars), properly insure resorts, and make provisions for disabled tourists. Additionally, it allows for tourists to formally lodge complaints and requires that operators answer in a timely and appropriate manner. The GRM will charge fees for licensing tourist activities, but the details of this levy are not yet available.

16. (SBU) COMMENT: The GRM is putting significant effort into creating an environment for tourism growth and development, as they see tourism growth as a key to reducing absolute poverty in line with the PARPA. USAID is in the process of creating a six-year strategy for tourism development in Mozambique and has reviewed tourism destinations in the north, central, and southern regions. In meetings with Minister Sumbana, there seems to be agreement that the North is a good environment for USAID tourism investment because of the range of possible tourist destinations (Lake Niassa, the Niassa Reserve, Ilha de Mozambique, Nacala, Pemba, the Quirimbas, and Ibo Island) and the relatively free and unpoliticized regulatory environment. Large challenges remain for tourism attraction in Mozambique: poor infrastructure, a single air carrier, crime, the expense of reaching tourist destinations, and for operators, lack of clear land titles and skilled labor. END COMMENT.

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ENERGY  
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17. (U) Portuguese-Mozambican Talks on Dam Dispute: The Prime Minister of Portugal, Durao Barroso, made an official visit to Mozambique in March. One of the prime discussion pieces during this visit was the question of Cahora Bassa Dam ownership. The GRM, as stated by President Chissano on March 29, would like to obtain control over the dam. In the current arrangement, Hidroelectrica Cahora Bassa (HCB), 82% Portuguese-owned and 18% Mozambican-owned, maintains ownership and operation of the dam, which supplies a majority of its hydropower to South Africa's Eskom. Portugal has indicated that it is ready to sell some or all of its shares in HCB, as long as a reasonable agreement is reached. Although ranked by KPMG Consulting as the second-largest revenue-producing firm in Mozambique for 2001 and 2002, HCB has always operated in a state of debt (owed to the Portuguese Treasury). Dam operation is highly expensive, and until last month, Eskom was paying absurdly low prices for the hydropower. With the new tripartite agreement between Mozambique, Portugal, and South Africa (signed in February 2004) South Africa will be paying higher tariffs for electricity, allowing HCB to operate with increased capital. During Barroso's visit, President Chissano also made a pitch to the Portuguese Government for further debt relief. If HCB ownership turns over to Mozambique, Mozambique would no doubt like to see Portugal relieve HCB debt owed to the Portuguese Treasury.

18. (U) Energy Sector: According to facts presented at an Electricity and Mining Seminar in Maputo by the National Director of Energy, Pascoal Bacela, Mozambique has the lowest level of domestic energy consumption in all of Southern Africa. Only seven percent of the population has access to electricity, which corresponds to about 250,000 consumers. Furthermore, eighty percent of consumers live in

rural areas. Director Bacela presented energy sector opportunities for private investment and encouraged investors to take advantage of current hydropower projects, such as the Mpanda Mkuwa and Cahorra Bassa Dam, to pursue opportunities in electricity distribution. Currently, the GRM is completing distribution of energy to all provincial capitals by using hydropower coming from Cahorra Bassa. Bacela indicated that the GRM is interested in continuing to use its hydropower resources and explore natural gas and steam coal energy options.

LA LIME